"Summary of article by Richard B. Freeman: The Exit-Voice Tradeoff in the Labor Market: Unionism, Job Tenure, Quits, and Separations" in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 50-53



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What do unions do? Much of the economics literature on unions has focused on their effects on wages and benefits; it is clear that unions, on average, increase worker compensation. This classic article demonstrates that unions have an additional, independent effect on labor relations: they reduce the rate at which workers leave their jobs, and hence increase average job tenure. It seems likely that this occurs because union members have an institutionalized opportunity to voice their discontents and to attempt to change their conditions of work. The article first elaborates this argument in theory, and then tests it empirically on four large sets of data on individual U.S. workers in the late 1960s and the 1970s.

## EXIT, VOICE, AND LABOR

Albert Hirschman's "exit-voice" model proposes that individuals can react to discontent either by exiting from undesirable situations, or by voicing their discomfort to decision-makers in the hopes of effecting change. In the case of the labor market, workers can exit from undesirable jobs by quitting; and, in unionized workplaces, they can give voice to their concerns through the collective bargaining system and grievance procedures. If, as usually assumed, there is a tradeoff between the use of exit and voice, then union members should have lower quit rates and longer average job tenure than comparable nonunion workers.

This is a testable hypothesis, and the principal finding reported in this paper is that the hypothesis is quite strongly supported by the available data. The empirical analysis involves much more than the observation that union members have longer average job tenure. The familiar effect of unions on wages also increases tenure: workers are naturally more interested in keeping better-paid jobs. The major empirical challenge is to distinguish between the effect of union wages and the separate effect of union "voice" on quit rates and tenure.

There are several ways in which unions operate as an institutional form of worker "voice" within the firm. Perhaps the most important is the grievance and arbitration system, which is found in virtually all firms covered by major U.S. collective bargaining contracts, but in only a small minority of nonunion firms. The regular process of negotiation of labor contracts also allows institutional expression of workers' desires for change. If desired working conditions and rules have a public-good character within the workplace, it may be inefficient or even impossible for workers to seek these objectives individually rather than collectively. Union contracts create a set of negotiated rules that can be viewed as an industrial jurisprudence system, requiring that certain decisions be made on the basis of principles such as seniority, rather than supervisory authority. If workers desire such a system and it is provided largely by unions, then even with the same pay and other benefits, quit rates will be lower in unionized firms.

If institutions such as grievance and arbitration systems and "industrial jurisprudence" are so desirable that they lower employee turnover, why do nonunion enterprises so rarely offer these options? "...[T]he essence of voice is to reduce managerial power and create a dual authority channel within the firm. Such a change in power relations would be difficult to attain in the absence of a genuine independent union or union-like organization." [647] Among the minority of nonunion firms that do have grievance systems, managers frequently report that the systems were instituted in part to reduce worker desires for unions.

## EMPIRICAL ANALYSIS

Exit is measured by three variables: job tenure; quits; and total separations. Tenure reflects longer run behavior than current rates of quits or separations; however, tenure depends on past as well as present job characteristics. Quits appear to measure current worker decisions, while separations include layoffs initiated by the employer; however, the line between the two is not always clear (an employer may harass a worker into quitting; a disaffected worker may perform so poorly that firing becomes inevitable). Fortunately, the results for all three variables are qualitatively similar.

The empirical analysis uses large data sets describing individual worker characteristics and behavior. The strategy is to estimate equations expressing tenure, or probability of quits or separations, as functions of numerous explanatory variables, including wage levels and union membership as well as education, experience, industry, occupation, local labor market conditions, and others. While it is of course impossible to identify all factors that affect tenure or quit rates, one can hope that the unobserved factors are highly correlated with some of the variables that are included; if so, the estimated effects of the included variables include the actual effects of the unobserved factors.

If union membership continues to have a positive effect on tenure and a negative effect on probability of quits or separations, even when controlling for all the other factors, one would conclude that the evidence is consistent with the union voice hypothesis. This is exactly what happens in the empirical analysis (which occupies most of the original paper).

Of the four data sets, one includes only men aged 50-64, another includes only men aged 17-27 (all data sets exclude anyone who was in school or retired during the survey period), and two include men and women of all ages. All estimated effects of union membership on tenure, quits, and separations are significant and substantial; the effects are relatively largest for older men, and smallest for younger men. This suggests that union status is most valuable for older men, and least valuable for younger employees with less commitment to and seniority in a particular job, consistent with common images of the role of unions.

Several other analyses largely strengthen the basic conclusion. Does the relationship between union membership and job tenure simply show that more stable employees are likely to be in unions? One of the data sets allows a test of the empirical relationships restricted only to those who quit a job at least once during the survey period; union membership decreases the estimated probability of quitting among "quitters," just as it does in the entire sample.

The voice interpretation of the empirical results implies that union membership should have the greatest effect on those who are most dissatisfied with their jobs. They are the workers most at risk of quitting, for whom the union voice should be most important. Two of the data sets include questions on job satisfaction, allowing an examination of this question. Separate tests for workers at different levels of satisfaction largely confirm that the effect of unions is greatest for the most dissatisfied, although there is some ambiguity in the results in this case.

The union effect on employee turnover should be larger in firms with stronger or more inclusive grievance systems. This, too, is empirically confirmed, to the limited extent that it can be tested with the available data.

The analysis presented here, stressing the institutional role of unions, is consistent with the way that unions are typically viewed in the industrial relations literature. It is also consistent with other economic findings. The greater average tenure and lower quit rates in unionized firms suggests that they would rely temporary layoffs and recalls over the course of the business cycle, to a greater extent than nonunionized firms; this is confirmed by other research. Longer tenure may also allow greater investment in firm-specific human capital, boosting productivity in unionized firms. In general, there are many aspects of unions, beyond their effects on wages, that should be of central concern to theory and research in labor economics.